Galtaco

1978 ANNUAL REPORT

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ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

The Annual and General Meeting of Shareholders will be held in the Saskatchewan Room of the Royal York Hotel, Toronto, on Thursday, May 17, 1979, at 2:00 p.m., Toronto Time. Notice of this meeting, together with the Information Circular and Proxy Form is enclosed with this Report.

Galtaco Inc.
and subsidiary companies

Head Office:
P.O. Box 396,
Cambridge, Ontario,
N1R 5V8

OFFICERS and DIRECTORS - 1978

OFFICERS

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Chairman of the Board

HUGH C. MACKAY,
Vice-Chairman - Emeritus

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President

FRANK W. SIMPSON,
Secretary-Treasurer

J. DOUGLAS MAJOR,
Executive Vice-President

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Redlaw Inc.,
Toronto, Ontario

DOUGLAS R. McKAY,
Executive,
Galtaco Inc.,
Cambridge, Ontario

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Executive,
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Cambridge, Ontario

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J. DOUGLAS MAJOR,
Executive,
Galtaco Inc.,
Cambridge, Ontario

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THE ROYAL BANK OF CANADA
Cambridge, Ontario

SOLICITORS

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Toronto, Ontario

AUDITORS

THORNE RIDDELL & Co.
Cambridge, Ontario

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY
of CANADA
Toronto, Ontario

Galtaco Inc.

Report to Shareholders

On behalf of the Board of Directors, we are pleased to submit the Financial Report for the nine months ended September 30, 1978 and to comment briefly on some of the more significant events during the year.

FINANCIAL RESULTS

In 1978, our subsidiary Bartaco Industries Limited, increased its ownership of Redlaw Inc., a United States Corporation, to 60%. The Financial Statements include the results of Redlaw on a consolidated basis.

Consolidated sales for the nine months ended September 30, 1978 were $48,366,000. as compared to $46,280,000. restated for the year ended December 31, 1977 while consolidated earnings for the same period were $514,000. (being $.81 per share) as compared to consolidated earnings of $1,419,000. restated for the twelve month fiscal year ended December 31, 1977.

A direct comparison between 1978 and 1977 operating results is difficult because of the change of date of your Company's year end.

In 1978, quarterly dividends of $.10 per Class A share and $.085 per Class B share were paid. Shareholders were given the right to elect a stock dividend in lieu of a cash dividend. As a result of such elections there was an increase in the number of shares for trading from 654,454 to 682,761 Class A and Class B shares.

Dividends on the preference shares of Galtaco were also paid on January 1st, 1979 and were as follows:

First Preference
Shares. . . . . $1.50 per share
Second Preference
Shares. . . . . $5.06 per share

OPERATIONS

1. THE CASTINGS MANUFACTURING DIVISION

A major program of product redesign and development had a significant effect on profitability in fiscal 1978.

The Cambridge foundry fell short of budgeted projections principally due to a change in its product mix. These difficulties have now been resolved and management looks forward to a good year in this facility.

The improved production facilities at Brantford are now operating at a favourable capacity and this division should continue to improve in fiscal 1979.

The Orillia foundry also experienced lower margins in 1978 due to extensive model changes in its product mix. Your management is striving to resolve these difficulties and is confident that it can improve profitability in this operation shortly.

During 1978, the labour agreements in both Cambridge and Orillia expired. Although the Company and our unions concluded new collective agreements, work stoppages in both facilities severely affected Galtaco's operating results. The agreement finalized in both plants promises stability and mutual understanding with our employees over the next three years.

2. GENERAL MANUFACTURED PRODUCTS DIVISION

In 1978, this division performed at comparable levels to 1977. The Innovator seating program experienced an increase in costs which has affected its profitability.

The sales forecasts for both the Innovator and conventional seating programs are optimistic. The recent order from the Massachusetts Transit Authority for the City of Boston in the amount of $1,600,000 is a major contributing factor.

The industrial product division maintained its position in 1978 and has experienced a significant increase in sales during the first half of fiscal 1979.

This division manufactures axles, wheel rims and other under-carriage parts for the recreational trailer market across Canada.

3. SPECIAL PRODUCTS DIVISION

The hardware product line consisting principally of awning fabric and awning hardware was sold during 1978.

Spraymould Limited, a controlled subsidiary, is continuing on a limited basis. This Company's entire operation is presently under review.

4. UNITED STATES OPERATIONS

Your Company has majority control of three United States Corporations, namely, Redlaw Inc., Grand Rapids Metalcraft Inc., and Founders of American Investment Corporation. Grand Rapids Metalcraft Inc. is the principal operating unit.

For the fiscal year ended July 31, 1978 the net sales of Metalcraft, expressed in U.S. funds, increased by 24.5% to $35,555,000 as opposed to $28,568,000 in 1977. Earnings after taxes increased 26% from $1,114,000 in 1977 to $1,490,000 in 1978.

At present, Grand Rapids Metalcraft is offering its shareholders the right to subscribe for additional shares of its common stock at $5.00 per share. The proceeds from this offer will be applied to the reduction of loans attributable to the acquisition of Founders of American Investment Corporation. The subscription offer expires on May 18, 1979.

Although Founders of American Investment Corporation made an unsuccessful tender offer for Hein-Werner Inc., a Wisconsin based manufacturer of automotive parts and construction equipment, management is continuing its search for acquisitions to complement the ongoing operating companies within the Galtaco organization.

OUTLOOK

Bartaco Industries Limited, a 91% controlled subsidiary of Galtaco, has proposed to merge with Redlaw Inc. Redlaw is 60% owned by Bartaco.

An agreement in principle has been reached which would enable Redlaw to merge into a wholly owned Delaware incorporated subsidiary of Bartaco. The proposal has been ratified by the directors of both corporations subject to favourable tax rulings and approval of the minority shareholders of Redlaw.

The amalgamated corporation, to be known as Redlaw Industries Inc., would be controlled by Galtaco.

Application will be made for listing the shares of the amalgamated corporation on the American as well as the Toronto Stock Exchanges.

The continued dedication and effort of our employees at all levels and the support of our suppliers and customers are greatly appreciated by your directors and management.

The annual meeting of shareholders will be held in the Saskatchewan Room at the Royal York Hotel, Toronto, on Thursday, May 17th, 1979 at 2:00 p.m. Toronto time.

On behalf of the Board

David L. Chandler
Chairman of the Board

Douglas R. McKay
President

Cambridge, Ontario
April 18, 1979

Galtaco Inc.
Five Year Financial Review

	1978	1977	1976	1975	1974
	(9 Months)				
Statement of Income:					
Sales	$48,650,000	$46,814,000	$12,213,000	$12,179,000	$13,627,000
Cost of sales	41,641,000	38,867,000	9,585,000	9,430,000	11,423,000
Gross profit	$ 7,009,000	$ 7,947,000	$ 2,628,000	$ 2,749,000	$ 2,204,000
Sales, financial and administrative expenses	5,170,000	5,393,000	1,688,000	1,492,000	1,465,000
	$ 1,839,000	$ 2,554,000	$ 940,000	$ 1,257,000	$ 739,000
Other income					
Gain on sale of land	$	$ 132,000			
Gain on sale of investments	156,000				
Unrealized foreign exhange gain	185,000	840,000			
Equipment relocation costs	(104,000)				
Equity in earnings of non-consolidated subsidiary	44,000		140,000	274,000	106,000
Income from other investments		106,000	72,000	19,000	
Income before income taxes, minority interest and extraordinary items	$ 2,120,000	$ 3,632,000	$ 1,152,000	$ 1,550,000	$ 845,000
Income taxes	667,000	1,167,000	431,000	558,000	333,000
	$ 1,453,000	$ 2,465,000	$ 721,000	$ 992,000	$ 512,000
Minority interest in income of subsidiary companies	1,071,000	1,160,000			
Income from continuing operations	$ 382,000	$ 1,305,000	$ 721,000	$ 992,000	$ 512,000
Income from discontinued operations	84,000	114,000			
Income before extraordinary items	$ 466,000	$ 1,419,000	$ 721,000	$ 992,000	$ 512,000
Extraordinary items	48,000		154,000		384,000
Net income	$ 514,000	$ 1,419,000	$ 875,000	$ 992,000	$ 896,000
Financial and Other Information:					
Working capital	$10,256,000	$12,191,000	$10,458,000	$ 1,632,000	$ 1,301,000
Working capital ratio	1.75:1	1.85:1	2.58:1	1.79:1	1.73:1
Long term debt	15,200,000	11,081,000	9,763,000	2,261,000	2,378,000
Minority interest in subsidiaries	8,414,000	8,325,000	5,065,000		
Information relating to Class A and Class B shares.					
Number of shares outstanding	675,755	654,454	647,600	647,600	652,500
Shareholders' equity	$ 7,007,000	$ 6,540,000	$ 5,352,000	$ 5,001,000	$ 4,242,000
Equity per share	$10.92	$10.50	$8.26	$7.72	$6.50
Cash flow per share	$3.75	$6.97	$1.57	$2.32	$1.54
Earnings per share*	.81¢	$2.30	$1.41	$1.52	$1.37
Dividends per share	.30¢	.40¢	.40¢	.30¢	11.7¢
Return on equity	7.3%	21.7%	16.3%	19.7%	21.1%

*Including extraordinary items.

Galtaco Inc.

Consolidated Statement Of Income

	1978	1977
	Nine months ended September 30	Year ended December 31
Revenue		
Sales	$48,366,000	$46,280,000
Interest income	284,000	534,000
	48,650,000	46,814,000
Cost and expenses		
Cost of goods sold	41,641,000	38,867,000
Selling, administrative and general	3,726,000	4,698,000
Interest		
Long term debt	947,000	531,000
Other	497,000	164,000
	46,811,000	44,260,000
	1,839,000	2,554,000
Other income (expense)		
Gain on sale of land		132,000
Gain on sale of investments	156,000	
Unrealized foreign exchange gain	185,000	840,000
Equipment relocation costs	(104,000)	
Equity in earnings of non-consolidated subsidiary	44,000	
Income from other investments		106,000
	281,000	1,078,000
Income before income taxes, minority interest and extraordinary item	2,120,000	3,632,000
Income taxes	667,000	1,167,000
	1,453,000	2,465,000
Minority interest in income of subsidiary companies	1,071,000	1,160,000
Income from continuing operations	382,000	1,305,000
Losses from discontinued operations after income taxes and minority interest		(31,000)
Gain on disposal of assets of discontinued businesses after income taxes and minority interest	84,000	145,000
Income before extraordinary item	466,000	1,419,000
Income tax reduction realized on carry-forward of prior years' income tax losses of subsidiary company	48,000	
NET INCOME (note 10)	$ 514,000	$ 1,419,000

Galtaco Inc.

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

ASSETS	1978	1977
	September 30	December 31
CURRENT ASSETS		
Cash and short term deposits	$ 5,281,000	$ 7,284,000
Short term investments at cost which approximates market value		600,000
Accounts receivable	8,603,000	8,612,000
Notes receivable	423,000	
Inventories (note 3)	9,039,000	9,678,000
Prepaid expenses	570,000	307,000
	23,916,000	26,481,000
INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES (note 4)	4,794,000	907,000
LIFE INSURANCE, cash surrender value	47,000	42,000
FIXED ASSETS		
Land	441,000	570,000
Buildings and improvements	7,296,000	6,474,000
Machinery and equipment	18,811,000	16,839,000
	26,548,000	23,883,000
Less accumulated depreciation	11,031,000	10,575,000
	15,517,000	13,308,000
DEFERRED CHARGES (note 5)	2,074,000	1,829,000
	$46,348,000	$42,567,000

Approved by the Board

D. R. McKay, Director

F. W. Simpson, Director

LIABILITIES	1978	1977
	September 30	December 31
CURRENT LIABILITIES		
Bank indebtedness (note 6)	$ 4,619,000	$ 4,274,000
Accounts payable and accrued liabilities	7,639,000	7,954,000
Income and other taxes payable	166,000	929,000
Principal due within one year on long term debt	1,236,000	1,133,000
	13,660,000	14,290,000
LEASE DEPOSITS		2,000
LONG TERM DEBT (note 7)	15,200,000	11,081,000
DEFERRED INCOME TAXES	2,007,000	2,268,000
MINORITY INTEREST IN SUBSIDIARIES	8,414,000	8,325,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
2,818 6% Cumulative first preference shares, par value $100, redeemable at up to $105 per share		
779 6-1/4% Cumulative participating second preference shares, par value $100, redeemable at up to $105 per share		
999,500 Class A and Class B shares without par value		
1,000 Common shares without par value		
Issued		
318 First preference shares (328 shares in 1977)	32,000	33,000
279 Second preference shares	28,000	28,000
675,755 Class A and Class B shares (654,454 shares in 1977)	838,000	676,000
	898,000	737,000
CONTRIBUTED SURPLUS	101,000	101,000
RETAINED EARNINGS	6,285,000	5,975,000
	7,284,000	6,813,000
COST OF 33,867 SHARES (31,825 SHARES IN 1977) IN COMPANY HELD BY SUBSIDIARY	217,000	212,000
	7,067,000	6,601,000
	$46,348,000	$42,567,000

Commitments (note 9)

Galtaco Inc.

Consolidated Statement of Changes in Financial Position

	1978	1977
	Nine months ended September 30	Year ended December 31
WORKING CAPITAL DERIVED FROM		
Operations		
Net income	$ 514,000	$ 1,419,000
Items not involving working capital		
Depreciation and amortization	1,324,000	939,000
Deferred income taxes (reduction)	(261,000)	617,000
Gain on sale of fixed assets	(240,000)	
Minority interest in income of subsidiary companies	1,071,000	1,364,000
	2,408,000	4,339,000
Increase in long term debt	5,355,000	2,000,000
Proceeds from sale of fixed assets	827,000	263,000
Issue of capital stock	162,000	48,000
Working capital less cost of acquisition of subsidiary		1,326,000
	8,752,000	7,976,000
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	3,871,000	2,905,000
Investment in non-consolidated subsidiary	3,826,000	
Advances to non-consolidated subsidiaries	61,000	169,000
Reduction of long term debt	1,236,000	1,136,000
Redemption of shares in subsidiary company	875,000	249,000
Increase in deferred charges	494,000	1,130,000
Dividends	204,000	263,000
Dividends paid to minority shareholders of subsidiary companies	62,000	315,000
Other	58,000	76,000
	10,687,000	6,243,000
INCREASE (DECREASE) IN WORKING CAPITAL	(1,935,000)	1,733,000
WORKING CAPITAL AT BEGINNING OF PERIOD	12,191,000	10,458,000
WORKING CAPITAL AT END OF PERIOD	$10,256,000	$12,191,000

Galtaco Inc.

Consolidated Statement of Retained Earnings

	1978	1977
	Nine months ended September 30	Year ended December 31
BALANCE AT BEGINNING OF PERIOD		
As previously reported	$5,562,000	$4,819,000
Retroactive change in accounting policy (note 2)	413,000	
As restated	5,975,000	4,819,000
Net income	514,000	1,419,000
	6,489,000	6,238,000
Dividends on		
Preference shares	3,000	4,000
Class A and Class B shares	201,000	259,000
	204,000	263,000
BALANCE AT END OF PERIOD	$6,285,000	$5,975,000

Galtaco Inc.

Notes To Consolidated Financial Statements

Nine Months Ended September 30, 1978

1. ACCOUNTING POLICIES

(a) Basis of consolidation

These financial statements include the accounts of the 80% owned subsidiary company Molectrics Canada Inc. (Molectrics), the 91.3% owned subsidiary company Bartaco Industries Limited (Bartaco), its 59.8% owned subsidiary company Redlaw Inc. (Redlaw), Redlaw's 50.2% owned subsidiary company Grand Rapids Metalcraft Inc. (Metalcraft) and Metalcraft's investment in its 50.1% owned subsidiary company Founders of American Investment Corporation (Founders). Founders is a U.S. regulated investment company and accordingly has been accounted for on the equity basis (note 4).

The consolidated statement of income includes the company's equity in Founders' income for the period from April 7, 1978 to June 30, 1978, Redlaw and Metalcraft's income from January 1, 1978 to July 31, 1978, and Bartaco's income from October 1, 1977 to September 30, 1978.

The company has operational control of Spraymould Limited and Spraymould (Bahamas) Limited and is committed to contribute its management expertise to their operations.

Should Galtaco give up its operational control it would be required to relinquish its shares in the Spraymould companies and accordingly they have been accounted for on the cost basis (note 4).

(b) Investment in non-consolidated subsidiaries

The excess of cost over assigned values of Founders at date of acquisition is included in the investment in the non-consolidated subsidiary and is being amortized over 35 years.

The investment in the 51% owned non-consolidated subsidiaries Spraymould Limited and Spraymould (Bahamas) Limited is recorded at cost less provision for decline in value of advances.

(c) Foreign currency translation

The accounts of the subsidiary companies located in the United States and Bartaco's long term bank loan payable in U.S. funds have been translated to Canadian currency as follows:

Monetary assets and liabilities - at exchange rates in effect on the balance sheet date of the foreign subsidiaries;

Inventories - at average rates of exchange during the period of purchase or manufacture;

Fixed assets - at exchange rates prevailing at dates of acquisition;

Long term debt - at exchange rates in effect on the balance sheet date of the debtor;

Accumulated depreciation and related provision against income - at exchange rates prevailing at dates of acquisition of the related assets;

Income and other expenses - at average exchange rates for the year.

Unrealized exchange gains and losses are charged to income as they accrue with the exception of unrealized losses relating to long term debt which are deferred and amortized over the remaining life of the debt.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis for Canadian inventories and for direct labour and overhead in a United States subsidiary. Cost is determined on a last-in, first-out basis for materials and purchased parts in that United States subsidiary.

(e) Fixed assets

Fixed assets are stated at cost and are depreciated principally on the straight-line basis using rates which are intended to write off the cost of the assets over their estimated useful lives as follows:

Buildings and improvements	10-45 years
Machinery and equipment	4-20 years

1. ACCOUNTING POLICIES (cont'd)

(f) Deferred charges

New product development costs related to products in commercial production are amortized based on the rate of $4 per unit sold.

New product development costs relating to products currently in the development stage are stated at cost less sales revenues therefrom.

Deferred translation adjustments related to U.S. dollar debt are amortized over the remaining life of the debt.

Long term debt issue costs are amortized over the original lives of the related debt.

(g) Pension plans

Current service costs are charged to income as they accrue. Unfunded past service liabilities are being charged to income as set out in note 9.

2. CHANGE IN ACCOUNTING PRINCIPLE

During 1978 the company adopted the method of foreign currency translation described in note 1(c) to conform with the recent recommendations of the Canadian Institute of Chartered Accountants. Previously the company had followed a method under which unrealized exchange losses on long term debt were charged to income as they accrued.

As a result of the change, which has been applied retroactively, consolidated net income for 1978 has been increased by $236,000 and consolidated net income for 1977 has been increased by $413,000.

During the period from the balance sheet dates of the foreign subsidiaries to September 30, 1978 the U.S. dollar increased in value relative to Canadian currency. Had the accounts of the foreign subsidiaries been translated to Canadian currency at September 30, 1978, net income would have increased by $120,000 ($.19 per share) and working capital would have increased by $180,000.

3. INVENTORIES

	1978	1977
Raw materials and supplies	$4,862,000	$5,191,000
Work in process	3,157,000	3,225,000
Finished goods	1,020,000	1,262,000
	$9,039,000	$9,678,000

4. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

	1978	1977
Spraymould Limited		
Shares	$ 10,000	$ 10,000
8% Advances maturing July 31, 1982 less provision for decline in value of $125,000	924,000	897,000
Other advances	34,000	
Founders of American Investment Corporation	3,826,000	
	$4,794,000	$ 907,000

(a) Galtaco has guaranteed bank advances to Spraymould of $160,000 at September 30, 1978 and while it retains operational control is committed to the guarantee of further advances and interest thereon for the financing of Spraymould operations.

4. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

(a) (Cont'd)

Spraymould is in the research and development stage of its corporate existance and all expenses net of government grants and sales revenue have been treated as deferred charges. The ultimate worth of the assets shown in the following summary of financial data and the company's investment in Spraymould is dependent on the successful development of the production process, suitable financing and subsequent sales or royalty agreements at adequate prices. A provision for decline in value of advances to Spraymould in the amount of $125,000 has been reflected in the accounts of the company.

Subsequent to September 30, 1978 the company entered into an agreement with the Trustees of the Eaton Retirement Annuity Plan to acquire their interest in Spraymould Limited at a cost of $100,000 plus the company's interest in Spraymould (Bahamas) Limited. Upon completion of this transaction it is the company's intention to undergo a statutory amalgamation with Spraymould. Management is of the opinion that the amalgamation will contribute to the recovery of the investment in Spraymould.

Spraymould Limited summary of financial data:

	June 30, 1978
Current assets	$ 80,000
Receivable from affiliate	53,000
Fixed assets, net of accumulated depreciation	302,000
Deferred charges	3,314,000
	$3,749,000
Current liabilities	$ 254,000
Long term debt	3,358,000
Capital stock	137,000
	$3,749,000

Spraymould (Bahamas) Limited is currently inactive. Its assets and liabilities are not material.

(b) On April 7, 1978 Metalcraft acquired 1,812,296 shares (50.1%) of the outstanding common stock of Founders for a total cash consideration of approximately U.S. $3,300,000 including fees and expenses. Metalcraft financed U.S. $1,600,000 of the purchase price by a bank loan repayable in 18 months and U.S. $1,600,000 by way of a loan from Redlaw under the same terms and conditions as the bank loan. It is the intention of Metalcraft to repay these loans from the proceeds of a subscription offering to its shareholders for additional shares of its common stock (note 12).

The excess of cost over equity in assigned values of Founders was $274,000.

The financial position at June 30, 1978 and results of operations for the year then ended of Founders is summarized as follows:

Cash	$5,689,000
Investments in real estate, at cost less accumulated depreciation of $147,000	734,000
Investments in mining claims, at cost	329,000
Other assets	476,000
Liabilities	(381,000)
Net assets	$6,847,000

4. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

(b) (Cont'd)

Investment income, including interest of $514,000	$ 694,000
Operating expenses, including income taxes of $107,000	359,000
Net investment income	335,000
Income prior to April 7, 1978 (acquisition date)	(243,000)
Post acquisition income	$ 92,000
Metalcraft's equity in net income	$ 46,000
Less amortization of excess of cost over equity in assigned values	2,000
	$ 44,000

5. DEFERRED CHARGES

	1978	1977
New product development costs		
Products in commercial production	$ 1,237,000	$ 1,202,000
Products in the development stage	65,000	63,000
Unrealized translation losses on long term debt	626,000	408,000
Long term debt issue costs	29,000	36,000
Other	117,000	120,000
	$ 2,074,000	$ 1,829,000

6. BANK INDEBTEDNESS

Bank indebtedness is secured by a general assignment of book debts, inventories and shares of a subsidiary company.

7. LONG TERM DEBT

	1978	1977
The Company		
5-1/2% General mortgage sinking fund bonds due July 1, 1981	$ 115,000	$ 120,000
Less sinking fund cash	37,000	10,000
	78,000	110,000
7-1/4% debenture due July 15, 1982	741,000	886,000
10% First mortgage bonds due June 15, 1982	229,000	277,000
Bank loans, payable semi-annually to 1980	150,000	500,000
5% Note, payable annually to 1987	2,509,000	2,788,000
Debenture due November 15, 1982, bearing interest at a variable rate, currently 11.37%	1,890,000	1,980,000
Subsidiary companies		
Long term bank loan (U.S. $4,800,000)	5,685,000	5,270,000
7.25% Debenture, payable monthly to maturity in 1981	240,000	301,000
Unsecured bank loan, due October 1979, bearing interest at 1/2% over U.S. prime rate (effective rate 9.5% at July 31, 1978) (U.S. $1,600,000)	1,816,000	

7. LONG TERM DEBT (Cont'd)

	1978	1977
9.5% Bank loan secured by liens on equipment payable in monthly instalments of U.S. $26,000 to maturity in 1986 (U.S. $2,500,000)	2,837,000	
Other	261,000	102,000
	16,436,000	12,214,000
Less principal included in current liabilities	1,236,000	1,133,000
	$15,200,000	$11,081,000

The long term bank loan is payable in U.S. funds and bears interest at the U.S. base rate of the company's bankers (10% at September 30, 1978) plus 1-1/2% to December 31, 1979 and 2% thereafter and is secured by an assignment of shares in a subsidiary company. Principal payments of U.S. $500,000 are due on December 31, 1979, 1980 and 1981, and the balance of U.S. $3,300,000 is due on December 31, 1982. Under certain circumstances earlier repayment may be required.

Under the terms of certain of the debt instruments, the company has agreed to certain regulation of the following activities:

(a) Investments
(b) Borrowing of money
(c) Redemption of capital stock
(d) Payment of dividends
(e) Loans to shareholders

The bonds and debentures are secured by the company's fixed assets and by a floating charge on all its assets and undertakings.

Principal due on long term debt within each of the next five years is approximately as follows:

1979	$1,236,000
1980	3,626,000
1981	1,704,000
1982	1,635,000
1983	5,991,000

8. CAPITAL STOCK

The Class A and Class B shares are interconvertible and the Class B shares are eligible for tax deferred dividends. Such dividends are effectively reduced by the company's tax costs related thereto. In all other respects the rights of the Class A, Class B and common shares are identical. During the period ended September 30, 1978, 21,301 Class A and Class B shares were issued for a consideration of $162,000.

9. COMMITMENTS

The most recent actuarial valuation indicates that the actuarially-computed value of vested benefits exceeded pension plan assets and balance sheet accruals in Redlaw's Metalcraft subsidiary by approximately U.S. $4,181,000 as at August 1, 1977. Metalcraft amortizes past service costs over 30 and 40 years.

Unfunded past service liabilities in the parent company approximate $114,000 at September 30, 1978. This liability is being funded by annual instalments through 1988.

10. EARNINGS PER SHARE

	1978	1977
Income from continuing operations	$.59	$2.11
Discontinued operations	.14	.19
Income before extraordinary item	.73	2.30
Extraordinary item	.08	
Net Income	$.81	$2.30

11. INCOME TAXES

At September 30, 1978 a subsidiary company has losses of $237,000 available to reduce future years' income for tax purposes the tax effect of which has not been reflected in the accounts.

12. SUBSEQUENT EVENT

Rights offering by a subsidiary

Metalcraft has filed a preliminary prospectus with the U.S. Securities and Exchange Commission in connection with a rights offering to its shareholders. Existing shareholders will be offered the right to subscribe for common shares to a maximum of existing shareholdings. In addition each shareholder may subscribe for additional shares which will be allocated (on a pro rata basis if necessary) from any shares not subscribed for by other shareholders.

Redlaw has agreed to subscribe for 315,427 shares (50.2% of all the shares offered). In consideration for this undertaking, Redlaw will have the right to purchase some or all of any unsubscribed shares for a period of 30 days after the expiration date of the offering.

13. OTHER STATUTORY INFORMATION

	1978	1977
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act of Ontario)	$ 219,000	$309,000
Depreciation	1,075,000	819,000
Amortization	249,000	120,000

Galtaco Inc.

Auditors' Report

Thorne
Riddell
& Co.

**To the Shareholders of
Galtaco Inc.**

We have examined the consolidated balance sheet of Galtaco Inc. as at September 30, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the nine months then ended. For the company and its subsidiaries of which we are the auditors our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other subsidiaries consolidated and accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

As described in note 4, recovery of the investment in Spraymould Limited is dependent on successful development of the process and the outcome of the proposed amalgamation.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the ultimate resolution of the matters referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the nine months then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change, with which we concur, in the method of accounting for unrealized exchange losses on long term debt as described in note 2, on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered accountants

Cambridge, Canada
January 31, 1979
(April 10, 1979 as
to note 4(a))

Galtaco Inc.

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